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Auto insurance - of COVID-19, personalization and disruption

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Abstract:

Auto Insurance industry is at a cusp, influenced by the twin forces of Market expectations and technology disruptions. While the fundamentals of insurance will not change, the implications of these forces to the underlying coverages, stakeholders and business models are significant.

The Covid impact has further exposed the underlying rigidity in the pricing of insurance, distribution as well as the various coverages offered to the customer. There is an immediate need to personalize offerings in order to retain existing and attract new customers.

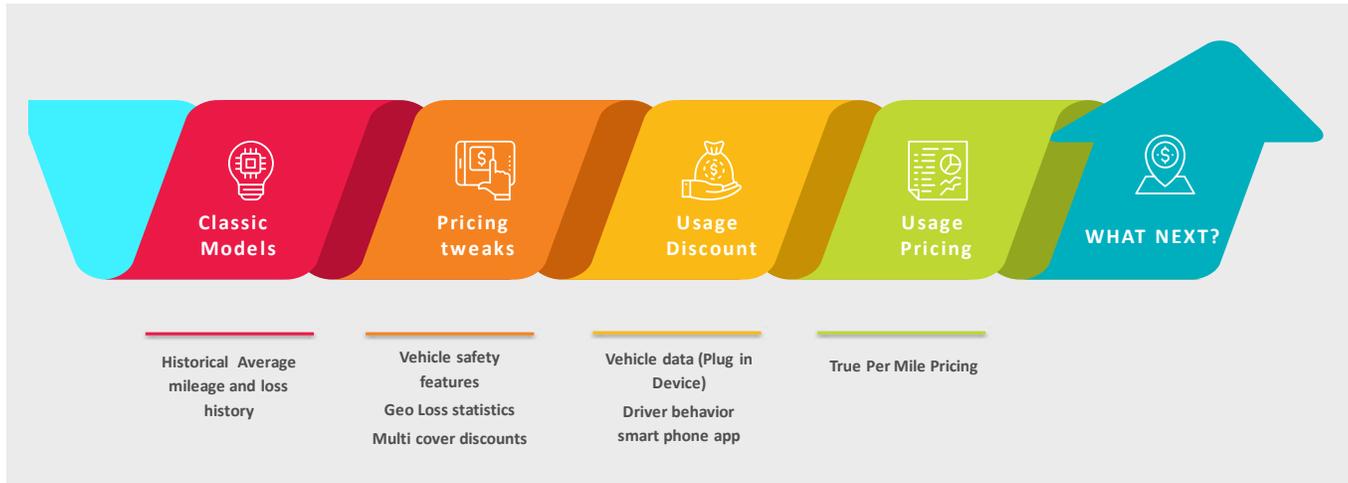
In parallel, the autonomous vehicles and V2X technologies are undergoing multiple field trials all over the globe. This has the potential to significantly disrupt the auto insurance market in the decades to come.¹

This white paper attempts to provide an over arching roadmap through which auto carriers can embark on a transformation to get ready for this future, while reaping immediate ROI.

¹ Quantifying an Uncertain future - Insurance in the new mobility eco system, Deloitte - John Matley, Matt Carrier, Malika Gandhi, Peter Tomopoulos, Stefan Peterson, 2016

Auto Insurance - A historical perspective

From a pricing point of view, Auto Insurance has always relied on the average mileage and loss-history based pricing models. Policy specific adjustments like vehicle safety features, Geo Loss statistics and account specific discounts are applied on the base rating to derive the final premium for coverage. This is the status with many carriers even now in the industry.



While many tech investments are continuing to be made around gathering of usage statistics of the vehicles, the next level pricing enhancements took off in a significant manner only in the last few years. There were two categories of devices to help gather usage statistics of the vehicles.

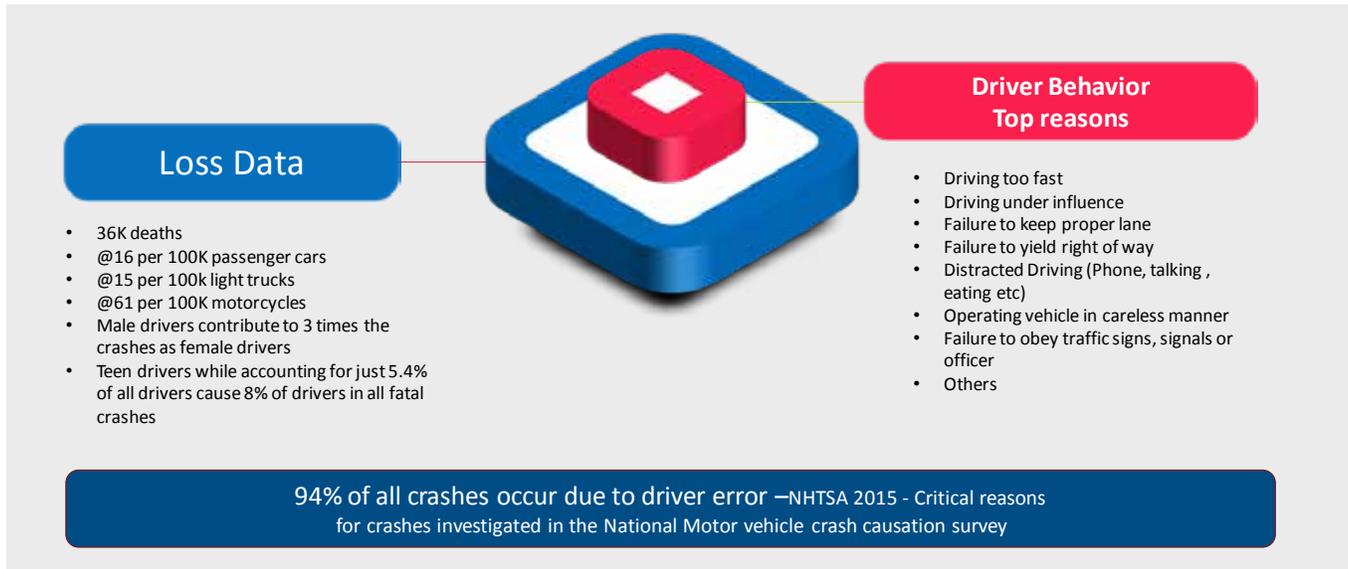
- Devices that get plugged into the vehicle OBD ports
- Smartphone apps that were designed to gather driver behavior characteristics

While the vehicle devices have had a long history, the driver behavior apps are relatively new (in the last few years). Carriers use the vehicle and Driver behavior data to derive a “Driving score” which is then used to provide an additional discount on the premium. Some of the carriers in this category are as follows:

Carrier	Vehicle Device	Smartphone app	Pricing discount mechanism
Progressive	Snapshot	Snapshot	Discount on base rate based on driving
GEICO		DriveEasy	Upto 20% discount on base rate based on Driving score
State Farm	On Star	Drive Safe and Save	Upto 30% discount on base rate based on score
Allstate		Drivewise	Upto 15% discount on base rate based on driving behavior and Mileage

Metromile does offer a true per mile premium using their Pulse device. This is typically a combination of a base rate plus the increment based on the actual miles driven during the billing period.

Auto Insurance - Loss Data²



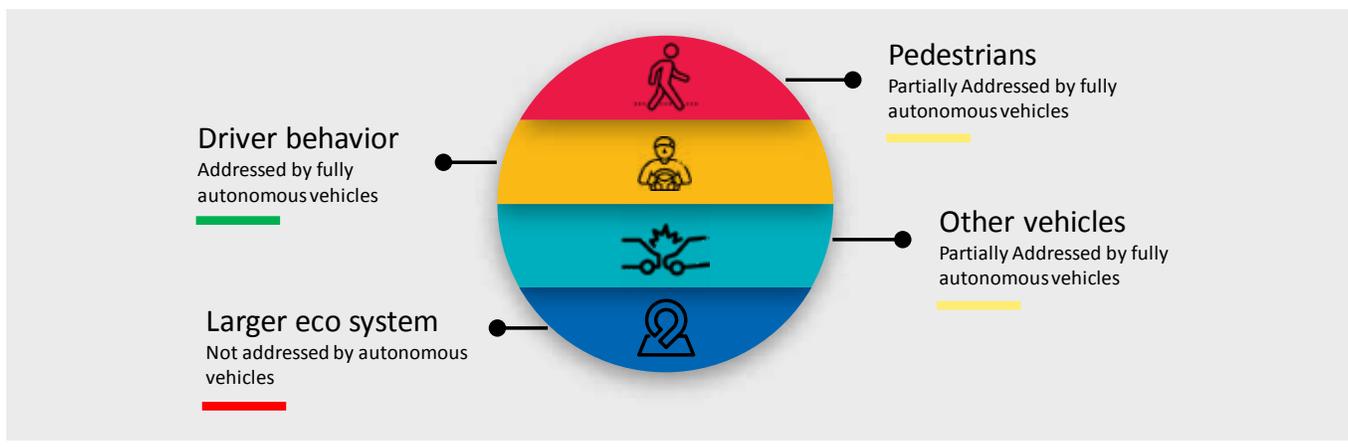
The 2019 Insurance fact book provides the loss statistics across various attributes. Between that and the NHTSA reports³, most of the loss triggers can be acquired through the two options outlined in the previous section namely (1) Vehicle devices and (2) Driving behavior apps

Except for the MetroMile example in the above section, the rest of the usage based premium services are at best an indirect reflection of the actual driving data as the discounts are capped at certain levels.

Given the high percentage of crashes caused by Driver errors, any mitigation on the driver influence will significantly reduce the loss statistics. Such a mitigation is enabled by the continuously enhancing autonomy of the vehicles, particularly through the features around collision warnings and avoidance. Its theorized that full autonomous vehicles in future will significantly eliminate the driver influenced crashes.³

V2X technology

Broadly accident causes can be classified as follows



² Insurance Fact Book 2020, Insurance Information Institute

³ NHTSA 2015 - Critical reasons for crashes investigated in the National Motor vehicle crash causation survey

The fully autonomous vehicles will completely address the Driver behavior triggers and partially address the distractions caused by pedestrians and other vehicles. That still leaves the larger eco system along with remaining risks associated with the pedestrians and other vehicles. Without addressing this, there will continue to be significant loss triggers. The cellular vehicle to everything (V2X) technology is a potential solution for this once it becomes a reality. This technology is a combination of devices, positioning and network to enable an eco-system that supports the following:

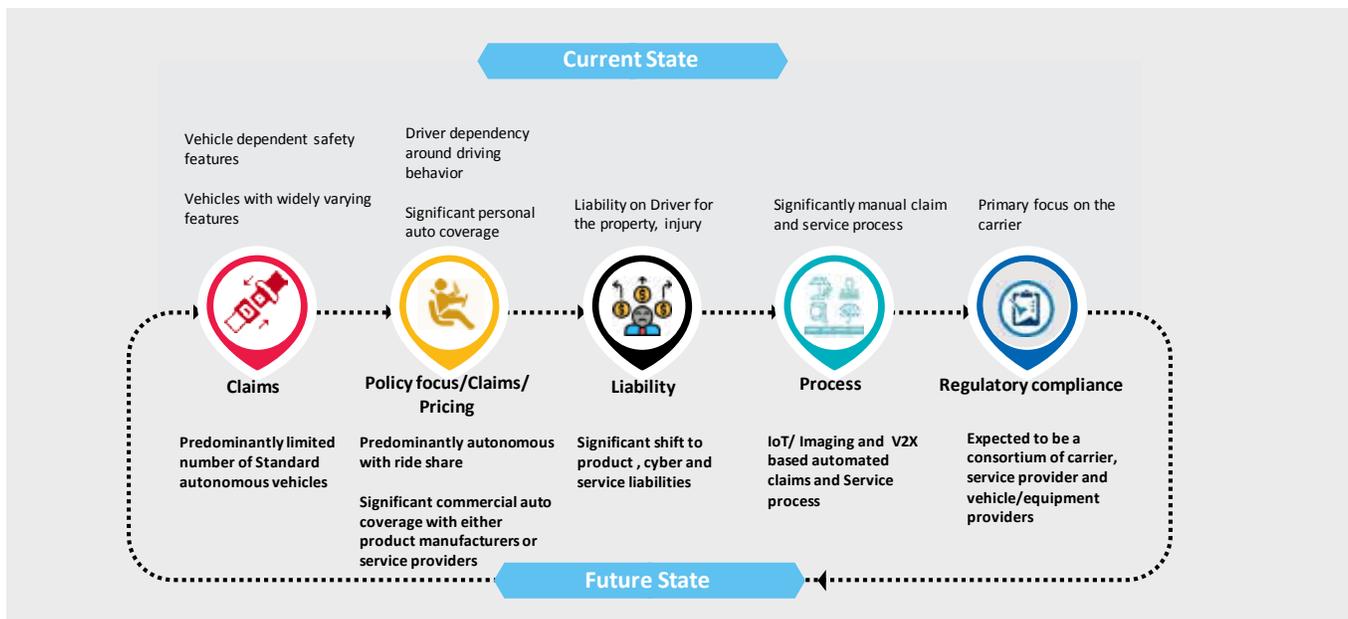
- Ultra-high throughput
- Ultra-low latency
- Ultra-precise positioning
- Ultra-high reliability
- Broadcast, unicast/Multicast
- Radar, Camera, Lidar, ultrasonic, Wireless, 3D HD Maps

The above enable an effective exchange of information to coordinate free flowing traffic using devices embedded in vehicles and traffic eco system services. Such a technology eco-system will enable vastly improved management of traffic at high speeds ⁴ covering the following scenarios.

- Non-Line-of-sight sensing
- Conveying intent to other vehicles
- Situational awareness

Future of insurance with Autonomous, Ride share adoption in a C-V2X scenario

When the fully autonomous vehicles get significantly adopted in a ride sharing scenario along with supporting C-V2X eco system, this will have a disruptive impact on insurance industry. There will be large scale deployment of just a few variations of standardized, mass produced, and thus low cost fully autonomous vehicles owned by ride share service providers.



⁴ Accelerating C-V2X commercialization, 2017 - Qualcomm

Auto Insurance will significantly shift towards commercial coverage which has more liability (product and Services) and Cyber security. This also be dependent on the tech service provider eco system in addition to the carrier along with an end to end automation of the New business, Underwriting and claims process. This will also be in a scenario where the overall Auto Insurance footprint would have shrunk by a significant percentage. Having said that, there will still be enough personal Insurance for those who prefer to continue with either the fully autonomous or semi-autonomous personal vehicles without opting for the ride sharing services.

Covid Impact

While all of this are progressing in different cadences, the immediate impact of Covid has created some priority issues. Carriers are grappling with impacted customers and have already come out with the following supportive mechanisms

- Refund of part of auto insurance premium
- Cancellation deferment (in case of non-payment of premium)
- Waiver of late fee
- Flexible payment options
- Adding more online account and claims services for policy holders
- Shifting more resources to anti-fraud and cyber security units, in recognition of the bad actors who will prey on victims during times of crisis
- Suspending in-person loss control visits and inspections, and transitioning to telephone calls and mail surveys

Pricing Personalization

While these mechanisms are very useful immediately, this will not help the carriers retain the customers as the impact is much beyond the immediate premium payments.

Insureds are expected to come back to the carriers asking about more flexible options as in

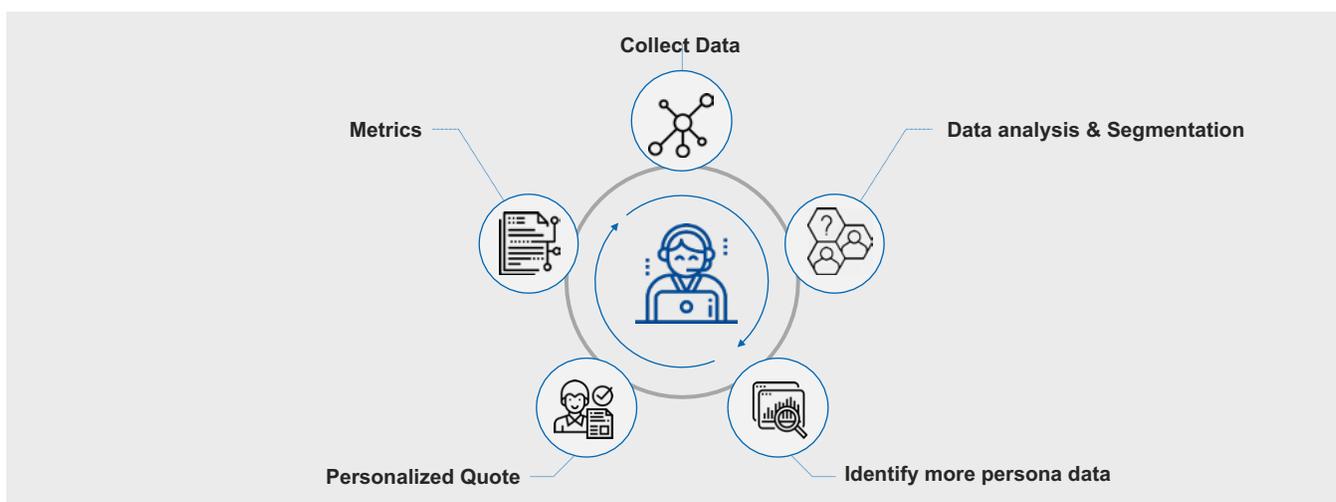
- Temporary suspension of specific coverages / exclusions depending on their vehicle usage
 - An ability to selectively take out specific coverages for a given period of time
 - Flexibility to choose modified coverages - minimum that is required like Fire & Theft instead of collision/comp and Liability coverages
 - Suspending personal auto exclusions for restaurant employees who are transitioning to meal delivery services using their personal auto policy as coverage
- Coverage options to suit their budget
 - While many providers today offer a quote along with a set of coverages that can be further tweaked, it's important to offer customers a recommended coverage combination for a preferred premium amount
 - One-on-one call to propose payment options and suggest coverage modification
 - We also anticipate that the customers will prefer to move to a true per mile premium model as outlined in the historical perspective section above. The carriers will have to explore ways to convert their driving score discount mechanism to a true usage based premium model.

New business personalization

In the United States, Personal Auto Insurers can tap an additional \$2B worth of premiums if they can retain 10 percent of the \$19 Billion in direct premium switches from one carrier to another⁵. In order to attract new customers, carriers would need to explore new point of sale distribution mechanisms where they get to offer their products through auto dealers and resellers. This involves opening up their New business and Quote functionality as open APIs which can then get embedded in new distribution eco system. This will enable them to provide multiple options to customers at the point of sale.

In addition, carriers should leverage third party market data around vehicles, loss history and social media analytics to proactively engage customers who may need an alternative auto insurance option. Enormous data is available either directly shared by the customer or through external database, IOT devices, social exchanges, web visits etc. Technologies such as AI/ML and Data analytics help in slicing and dicing the data and provide meaningful insights into the needs of the customer.

Personalization involves processing the data as depicted in the figure below - gathering these data, analyzing to arrive at a probable set of prospects, segmenting the prospects by demographics and risk profile, and if required gather more persona information to make personalized offers and messages.



Post claims personalized support

Carriers should leverage their preferred service provider eco system to engage customers at the moment of their greatest need. It will be of significant physical and moral support to customers to see a service provider from a carrier at the scene of the accident taking care of vehicle towing and other support services. For the carrier it will provide a cost-effective solution in having full control over the claims process right from the scene of the accident. In addition to the static content used in claim communications, a personalized note enquiring on the policy holder current recovery status will create a huge difference in customer experience. Post claim settlement, advice on how claim benefits could have been better (citing under insurance, lack of coverage etc.) will help retain loyalty of a customer who was dissatisfied with the claim amount. In addition, usage of pricing personalization will help in customer retention and service satisfaction for at-fault scenarios which typically result in significant premium increases.

The above actions will not only attract new customers and improve existing customer satisfaction but improve the overall brand image of the carrier.

⁵ How traditional insurance carriers can disrupt through personalized marketing, McKinsey, Mila Adamova, Julien Boudet, Hussein Kalaoui, and Ido Segev - Aug 2018

Conclusion

The actual impact of the autonomous vehicles, ride share and V2X may still be decades away. However, starting on a personalization journey as outlined above will equip a carrier to face the rapidly changing industry. These initiatives will require a digital transformation that moves the current legacy tech eco system into an “orchestrated” model. Such an “Orchestrated” model is crucial to managing the necessary flexibility in products and risk coverage that will be expected in future. Even if the lines blur between personal and commercial insurance, the ability to look at coverages at a granular level will help the carriers pack a wide variety of products based on the market needs on demand.

About Author



Rangarajan Srinivasan
Head of Insurance Solutions

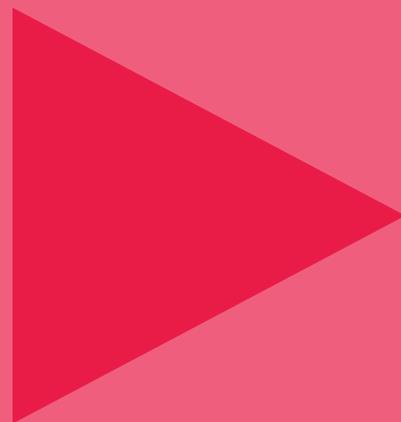
Ranga comes with 30 years of experiences across the entire Insurance spectrum, from multiple IT roles, Solutions covering both technology and operations, as well as being a CIO for an Insurance TPA. He has diverse experience across Insurance covering Life and Annuities, Property and Casualty and Reinsurance. As part of this experience, he was involved in large legacy modernization/digital transformation, conceptualizing and guiding. As a service solutions and providing end to end solutions across technology and operations. Ranga has also setup technology practices geared towards servicing Insurance organizations.

Based out of New York, Ranga is actively involved in creating and guiding clients in their transformation journeys focusing on New business, Underwriting, Loss control and Claims. Ranga drives HCLs insurance propositions by coordinating across technology practices and partner eco system.

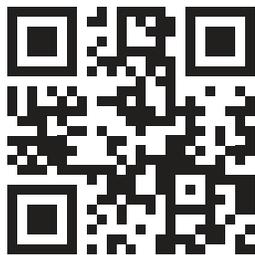


Anitha Selvaraj
Sr. Business Manager – Insurance Practice

Anitha has over 20 years of experience in P&C Insurance which includes 10 years with India’s largest P&C carrier as an Underwriter – Personal and Commercial Lines and 10+ years of IT services into Business Analysis, Solutioning and Consulting for North America and India based Insurance carriers. She has wide implementation experience of IT services for P&C insurance carriers and across Product platforms like PREMIA. Anitha holds a fellowship from III and AINS from The Institutes. At HCL. Anitha engages in business solutioning to one of the largest P&C carriers in North America with primary focus on digitalization.



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